

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 DODE-00 PA-01 PRS-01 PM-04 /089 W

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R 240800Z FEB 76

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 3966

C O N F I D E N T I A L ABU DHABI 0470

E.O. 11652: N/A

TAGS: EFIN, EAIR, TC

SUBJ: ABU DHABI REVAMPS INVESTMENT BOARD

REF: 75 ABU DHABI 1309

1. GOVERNMENT OF ABU DHABI IS FINALLY PROCEEDING WITH LONG EXPECTED REORGANIZATION OF INVESTMENT BOARD. CHANGES NOT OFFICIALLY ANNOUNCED, BUT OUTLINES OF NEW MECHANISM ARE FAIRLY CLEAR.
2. THE LONDON BASED INVESTMENT BOARD, CHAIRED BY SIR JOHN HOGG, WILL BE DISBANDED TO BE REPLACED BY AN ABU DHABI BASED INVESTMENT "AUTHORITY"

OF "CORPORATION". POLICY DECISIONS WILL BE UNDER DIRECTION OF AUTHORITY'S

BOARD OF DIRECTORS. BOARD WILL BE CHAIRED BY SHAIKH KHALIFA BIN ZAYID,

ABU DHABI'S CROWN PRINCE. OTHER MEMBERS INCLUDE: AHMED SUWAIDI, UAE FOREIGN MINISTER; SHAIKH SUROOR BIN MOHAMMED, CHAIRMAN OF SHAIKH ZAYED'S DIWAN AND HEAD OF ABU DHABI DEPT OF WATER AND ELECTRICITY; ADNAN PACHACHI, THE RULER'S FOREIGN AFFAIRS ADVISOR; MOHAMMED HABROUSH, MINISTER OF STATE FOR BOTH THE ABU DHABI DEPT OF FINANCE AND UAE MINISTRY OF FINANCE AND INDUSTRY; JOHN BUTTER,

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DIRECTOR GENERAL, ABU DHABI DEPT. OF FINANCE HASSAN ABBAS ZAKI,

ECONOMIC ADVISOR TO THE RULER AND GERNERAL MANAGER OF THE ABU DHABI FUND FOR ARAB ECONOMIC DEVELOPMENT.

3. OPERATIONS (AND PROBABLY MOST INVESTMENT DECISIONS) WILL BE CONTROLLED BY AN EXECUTIVE COMMITTEE, REPORTING TO THE BOARD OF DIRECTORS. MEMBERS INCLUDE: JOHN BUTTER, HASSAN ABBAS ZAKI, ADNAN PACHACHI, JEAN BATTAILLARD, MOHAMMED HABROUSH (CHAIRMAN) AND MAJID ALI, A PAKISTANI WHO HAS ADVISED SHAKH ZAYED ON HIS PERSONAL INVESTMENTS.

4. AN EXECUTIVE DIRECTOR RESPONSIBLE FOR DAY-TO-DAY OPERATIONS HAS YET TO BE NAMED. IT IS FELT THAT THIS POSITION MUST BE FILLED BY AN ABU DHABIAN AND THE NATURAL CHOICE APPEARS TO BE MOHAMMED HABROUSH.

IF APPOINTED, HE MAY RESIGN HIS OTHER GOVERNMENT POSITIONS IN ORDER TO

DEVOTE FULL TIME TO THE INVESTMENT AUTHORITY. ALTERNATIVELY, ONE OF FOREIGN ADVISORS ON COMMITTEE MIGHT BE APPOINTED DEPUTY CHAIRMAN WITH AUTHORITY OF MANAGING DIRECTOR.

5. ORGANIZATIONAL CHANGES HAVE NOT YET LED TO ANY APPARENT CHANGES IN ABU DHABI'S INVESTMENT POLICIES OR CLARIFICATION OF INVESTMENT STRATEGY. INDEED, SINCE BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE INCLUDES MEMBERS WITH DIFFERENT INVESTMENT PHILOSOPHIES (PRIMARILY BUTTER, BATTAILLARD, AND ZAKI), REORGANIZATION MAY MAKE SUCH DECISIONS

MORE DIFFICULT, UNLESS DAY-TO-DAY INVESTMENT DECISION-MAKING IS EFFECTIVELY DELEGATED TO ONE OF COMMITTEE MEMBERS, AND HE IS GIVEN STAFF TO SUPPORT HIM.

6. FLEDGLING ORGANIZATION WILL FACE NUMBER OF OTHER SERIOUS PROBLEMS. FIRST, HOW MUCH MONEY IS AVAILABLE FOR INVESTMENT? JOHN BUTTER OF ABU DHABI FINANCE DEPT. HAS ALWAYS TRIED TO SET ASIDE 15-20 PERCENT OF ANNUAL REVENUE FOR THE FAMILY KITTY. MORE OFTEN THAN NOT, HOWEVER, TARGET IS NOT MET BECAUSE OF UNEXPECTED FOREIGN AID EXPENDITURES. MOREOVER, NO ONE HERE HAS GIVEN SYSTEMATIC THOUGHT TO QUESTION OF WHETHER ABU DHABI SHOULD BE SAVING 20 PERCENT OF ANNUAL REVENUE OR MORE OR LESS.

7. EVEN IF TARGET WERE ESTABLISHED AND WERE ADHERED TO, THE QUESTION OF PORTFOLIO COMPOSITION WOULD ARISE, I.E., HOW TO MAXIMIZE CONFIDENTIAL

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RETURN AND LEVEL OF ACCEPTABLE RISK. SUCH DECISIONS ARE PRESUMABLY THE RESPONSIBILITY OF THE BOARD OF DIRECTORS AND IMPLEMENTED BY THE EXECUTIVE COMMITTEE. MOST IMPORTANTLY, HOW WILL IT BE DETERMINED IF A CHANGE IN PORTFOLIO IS NECESSARY? AND CAN A CHANGE IN COMPOSITION BE MADE WITHOUT REFERENCE TO THE BOARD OF DIRECTORS?

8. IT IS ON THESE LAST TWO QUESTIONS WHERE CONSIDERABLE POTENTIAL CONFLICT EXISTS BETWEEN BUTTER, ZAKI AND BATTAILLARD AND THE MOST

LIKELY LOSER IS BATTAILLARD. ALTHOUGH MANY BANKERS RATE HIM PERHAPS THE BEST QUALIFIED INVESTMENT COUNSELOR OF THE THREE, HE DOES NOT YET HAVE A STAFF TO EVALUATE PORTFOLIO PERFORMANCE, AND BEING A NEWCOMER HAS YET TO BUILD UP THE PERSONAL ASSOCIATIONS WITH KEY ABU DHABIANS THAT COUNT FOR SO MUCH. ON THE OTHER HAND, BUTTER AND ZAKI ARE ESTABLISHED FIGURES HERE. BUTTER HAS TWO YOUNG INVESTMENT BANKERS ON HIS STAFF, WHILE ZAKI CAN RELY ON THE STAFF OF THE ABU DHABI FUND, PARTICULARLY THE YAPARTMENT OF INVESTMENT WHICH MANAGES FUND CASH RESERVES.

9. THERE HAS BEEN A SUGGESTION THAT IN ORDER TO AVOID CONFLICT, EACH MEMBER OF THE EXECUTIVE COMMITTEE BE RESPONSIBLE FOR A PARTICULAR KIND OF ASSET, E.G., ONE MEMBER SUPERVISE CASH, ANOTHER EQUITIES, ANOTHER DIRECT INVESTMENT, ETC. SUCH A DIVISION OF RESPONSIBILITY WOULD MEAN, HOWEVER, THAT RECOMMENDATIONS FOR CHANGES IN COMPOSITION WOULD HAVE TO BE BUCKED UP TO THE BOARD OF DIRECTORS.

10. WHILE THE REORGANIZATION WILL UNDOUBTEDLY ENHANCE NATIONAL PRIDE, IT REAMINS TO BE SEEN WHETHER THE NEW SYSTEM WILL OPERATE MORE EFFICIENTLY THAN THE OLD.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INVESTORS, INVESTMENT PROGRAMS, REORGANIZATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 FEB 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ABUDH00470
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: DG ALTERED
Executive Order: GS
Errors: N/A
Film Number: D760068-0699
From: ABU DHABI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760221/aaaaasbd.tel
Line Count: 137
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 ABU DHABI 1309
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 19 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 MAY 2004 by ellisoob>; APPROVED <22 OCT 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ABU DHABI REVAMPS INVESTMENT BOARD
TAGS: EFIN, EAIR, EINV, TC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006